

CENTRAL INTELLIGENCE AGENCY	REPORT
INFORMATION FROM	
FOREIGN DOCUMENTS OR RADIO BROADCASTS	CD NO.

DATE OF INFORMATION 1950

DATE DIST. 24 Oct 1950

NO. OF PAGES 10

SUPPLEMENT TO  
REPORT NO.

SUPPLEMENT TO  
REPORT NO.

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## STRUCTURAL FUNCTIONS OF SOVIET PUBLIC FINANCE

The Soviet financial system is an important instrument for regulating socialist production relationships and for building Communism. The most important functions of the system are: planned distribution of income and accumulation to satisfy national interests and to accelerate the expansion of the economy, and control over the formation, distribution, and utilization of monetary income and accumulation, and the exercise of control by the ruble over the production and distribution of the social product.

In the Soviet socialist state, most of society's needs are met by the state; therefore, they are state needs. Under state needs come the needs of an expanding state economy (i.e., capital construction, the formation and increase of stocks of materials in state enterprises, etc.); maintenance of the state administrative apparatus and the armed forces; maintenance of state educational and medical institutions; state aid to collective farms and cooperatives; state social security for persons incapable of working; and the stockpiling of state reserves of materials necessary for continued economic expansion.

The Soviet state follows the law of cost in developing its economy. Under socialism, the product of social labor is goods which are transferred for personal or productive consumption, not free of cost but in exchange for money. Hence, the formation and distribution of monetary income plays an important part in the distribution of the social product in a socialist society. To achieve a planned distribution of the social product, the formation, distribution, and utilization of monetary income must also take place according to plan.

The source of all incomes is the country's national income, i.e., that part of the aggregate social product which is newly created by human labor. In the distribution of the national income, the income of the socialist economy and personal incomes of individuals are formed.

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Every enterprise operating on the principle of cost accounting uses its receipts from the sale of its products to cover wages, social insurance deductions for employees, replacement of the means of production consumed in production, and maintenance and repair expenditures marketing transportation costs, etc. All these expenditures and deductions make up the cost of production. Gross receipts from the sale of output less cost of production leaves the monetary accumulation of the enterprise. Part of this accumulation, established beforehand as a certain percentage of the price of the product, is paid by the enterprise to the state budget as turnover tax. The remaining part of the enterprise's accumulation is its profit, which is its main source of funds for expansion (capital investment and replenishment of working capital). Turnover tax, profit, and social insurance deductions represent the surplus product created by state enterprises.

In the distribution of sales receipts of state enterprises, four main types of income are formed: wages constituting personal income for workers and office employees; social insurance and turnover tax payments, constituting two forms of state income; and profit, constituting income of the individual state enterprise.

Other types of income arise from the distribution of sale receipts (or the distribution of the output itself) of collective farms or cooperatives. These incomes consist of deductions for cooperatively owned funds of collective farms and cooperatives (indivisible funds of collective farms, the cultural funds of cooperatives, etc.) and of the incomes of collective farmers computed on the basis of labor-days (trudodni).

The income of the socialist economy and the personal income of the population into which national income is divided are called basic or primary income. Their total equals the national income of the country. However, the distribution of national income does not end with the formation of basic income.

A further distribution is necessary for the following reasons: (1) disparity between the monetary accumulation of a state enterprise and its planned expenditure requirements, (2) financing establishments and organizations in the nonproductional sphere, (3) assuring the participation of collective farms, cooperatives, and the population to meet state requirements, (4) state regulation of income and accumulation, (5) mobilization of liquid monetary accumulations of collective farms and cooperatives and of the monetary savings of the population, and (6) providing conditions for state control over the formation, distribution, and utilization of income and accumulation.

The first reason, disparity between monetary accumulation and planned expenditure requirements of an enterprise, is directly connected with the cost-accounting principle on which state enterprises operate. According to this principle, receipts of an enterprise must cover all expenditures and also yield a profit. When receipts from the sale of the enterprise's output are not sufficient to cover all expenditures, a subsidy must be provided by a higher organization or by the state budget. However, subsidies are used only in special circumstances, as the system weakens the incentive to cut costs and increase profits.

During the war, state subsidies were necessary to meet higher production costs in a number of branches of heavy industry because of increases in wages and other expenses resulting from the war. The successful fulfillment of the postwar Five-Year Plan is making it possible to eliminate state subsidies to industry. The Council of Ministers USSR adopted a resolution in 1948 to stop most state subsidies during 1949 and all state subsidies in 1950. This objective is being attained by reducing production costs and revising wholesale prices.

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As a result of these measures, receipts from the sale of the output of state enterprises in all branches of the national economy exceed production costs. To make cost accounting more effective, monetary accumulation of an enterprise is left at its disposal to be used for its planned expenditures. However, the monetary accumulation of an enterprise is not equal, and cannot be equal, to its planned expenditures, because the factors determining the enterprise's monetary accumulation are usually different from the factors determining its planned expenditures.

The primary purpose of the turnover tax is to siphon the excess of monetary accumulation over expenditure of an enterprise into the state's central funds to meet the needs of the state as a whole. However, the turnover tax cannot assure complete correspondence between the individual enterprise's planned expenditure requirements and the accumulation left at its disposal in the form of profit, since the turnover tax rates are not differentiated according to individual enterprises, but are based on averages for branches of production and groups of commodities.

An enterprise's profit depends on the quantity and quality of output produced and sold, cost of production, prices, and amount of turnover tax paid. An enterprise's requirements for working capital are dependent on the volume of production and sales and the turnover rate of working capital. The extent of the enterprise's capital investment, on the other hand, being based on national requirements, may not depend at all on the volume and quality of the enterprise's operation. As a result, one enterprise may have larger profits than it needs to cover planned expenditures, while another enterprise may have less than its needs.

Part of state enterprises' profits in excess of their own needs should be taken away and are taken away in the form of deductions from profits for transfer to other enterprises or for other expenditures of the state. If an enterprise's profit is less than its planned expenditure requirements, then it must be supplied with additional funds.

The most important expenditure requirements which are met by supplying enterprises and economic organizations with additional funds are capital investment and allocation of working capital to enterprises and organizations.

New enterprises under construction have no income. Funds to cover expenditures for construction and equipment and to provide working capital when the enterprises begin operations are provided by higher organizations or central state funds. Operating enterprises undergoing radical reconstruction (re-equipment, expansion) are in a similar position. Receipts from their sales would be insufficient to cover reconstruction expenses since these funds are almost all used to meet current production expenses and other costs.

A need for funds from higher organizations or central state funds may also arise in the case of enterprises whose assortment of products has greatly changed at the same time that an increase in their production program has been planned.

Another reason for state enterprises' receiving funds is to repair damages caused by fire, flood, or other catastrophe when the loss cannot be covered by funds previously given the enterprise.

In changing production assortment and speeding up the turnover of working capital, excess working capital may be created. This excess should be used productively by transferring it to state enterprises which are short of working capital and to central state resources. In this way, not only monetary

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income of the current period but also part of the accumulation of past periods undergoes further distribution. In certain cases, all expenditures of a state enterprise are covered by central state funds to assure that these expenditures are taken care of regardless of the enterprise's income from its work and also to strengthen the control over the enterprise's work. Thus, all expenses of machine-tractor stations are covered by budgetary allocations. By the same token, all monetary income of machine-tractor stations goes into the state budget.

The second reason for the further distribution of income is to finance establishments and organizations in the non-productional sphere. Only those enterprises and citizens participating directly in the production and sale of the social product receive basic income. Establishments and organizations in the nonproductional sphere do not produce or sell goods, but perform other socially necessary functions, for which they usually do not exact payment. Included in this category are the large number of educational and medical institutions, the armed forces, and the administrative machinery. Funds for the maintenance of these agencies are obtained by further distribution of the basic income. Personal expenses of students receiving scholarships, mothers with many children, and unwed mothers receiving state benefits, as well as citizens who unable to work because of ill health and live on pensions or other assistance from the state are also supplied in this way.

The incomes of state enterprises and economic organizations are the main source of funds for meeting state needs and are used for this purpose partly by the enterprises and economic organizations directly and partly through central state funds. However, collective farms, cooperatives, other state organizations, and the population are also supposed to take part in meeting state needs. To accomplish this task, the state exacts compulsory payments from collective farms, cooperatives, and the population, and takes measures to mobilize the monetary accumulation of collective farms and cooperatives and the monetary savings of the population.

Compulsory payments to the state determine the minimum participation of the incomes of individual collective farms, cooperatives, and citizens in meeting state needs. Compulsory payments of enterprises, organizations, and the population also serve as an instrument for state regulation of incomes and accumulation in accordance with the tasks of building socialism in each stage of development of the socialist economy.

It has been stated that the accumulation of an enterprise is not, and cannot be, equal to its planned expenditure needs, since the factors determining them are not the same. This is also true of the income and expenditures of collective farms, cooperatives, and the population. Even after deduction of compulsory payments to the state, incomes of collective farms, cooperatives, and individual citizens may exceed their current needs. The monetary income of collective farms and cooperatives remaining after meeting their own current planned expenses forms monetary accumulation not being used; and the excess of citizens' income over their current needs forms the monetary savings of the population. It is obvious that the socialist state could and should take measures to mobilize this accumulation and savings in the interests of a faster rate and larger scale of economic expansion.

Another important reason for further distribution of income and accumulation is to insure state control over the formation, distribution, and utilization of income and accumulation. Thus, in the interests of financial control, deductions from profits are exacted from all state enterprises and organizations and not just from those the profits of which exceed their planned needs. Enterprises whose profits are less than their planned needs have to pay minimum deductions (10 percent). The strengthening of state control is also to a large extent the reason for the budget financing of machine-tractor stations.

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Thus, the further distribution of income and accumulation is determined by a variety of reasons. The main purpose is to make sure that the national income is distributed as planned; that resources are concentrated on tasks set by the Party and the socialist state; that needs determined by the Party and the socialist state are met in full; and that the maximum rate of economic expansion is achieved.

The mobilization of part of the income, accumulation, and savings of enterprises, establishments, organizations, and individual citizens, on the one hand, and allocation of the mobilized funds to enterprises, establishments, organizations, and individual citizens for the satisfaction of their various needs, on the other, comprise the process of redistribution of monetary income and accumulation. The income formed as a result of this redistribution may be called derived income, since its source is the basic income of enterprises and organizations of the socialist economy and the basic personal income of the population. The sum of the basic and derived income naturally exceeds the national income.

The primary purpose of the Soviet financial system is the organization and execution of the distribution and redistribution of monetary income, accumulation, and savings in line with the functions and tasks of the socialist state. By means of the financial system and by the distribution of money, the following is accomplished:

1. The monetary accumulation of state enterprises and economic organizations is directed to the satisfaction of state needs; the participation of the income of collective farms, cooperatives, and the population is secured; and state regulation of income and accumulation is carried out.
2. Enterprises and economic organizations are provided with the sums needed for capital investment, for the formation of working capital and for its increase, and for remedying damage caused by fire, flood, etc., when this damage is not covered by the resources of the enterprises or economic organizations.
3. Expenditures for maintaining the armed forces, the administrative apparatus and social and cultural institutions, and expenditures for carrying out various measures in the field of cultural servicing of the working people are covered; and various types of state aid are rendered, such as to persons incapable of working.

The proper organization of the distribution and redistribution of money through the financial system is of very great importance to the national economy. The distribution and redistribution is along three lines: (1) among sectors of the economy and classes of the population, (2) among branches of the national economy and culture, and (3) among oblasts and rayons of the country.

Redistribution of resources among sectors of the economy and classes was of particular importance under a transitional economy. By establishing higher taxes for capitalist elements and giving financial assistance and credit to poor and middle peasants, the Party and the socialist state restrained and forced out capitalist elements. By redistribution of financial resources among sectors of the economy and classes, the Party and the socialist state provided the conditions for the socialist industrialization of the country, stimulated the cooperative movement, and helped create and strengthen the collective-farm system in agriculture.

Redistribution of resources among branches of the economy was of great importance during the socialist industrialization of the country and the collectivization of agriculture. Economizing in everything, the Party and the Soviet state directed the maximum of resources into the construction of heavy industry and into assistance to state and collective farms. Successes in the socialist

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industrialization of the country and the collectivization of agriculture made it possible in the prewar period to improve the living standard of the population as a whole, which could not take place without increasing investment in branches of industry producing consumers' goods, or without increasing investment in the social and cultural fields. Redistribution of resources among branches was of great importance in the Patriotic War when it was necessary to meet military needs. In the postwar Stalin Five-Year Plan, redistribution of resources among branches of the economy is accelerating the expansion of the most important branches of industry and of the economy as a whole.

The territorial redistribution of resources among oblasts and rayons of the country has always been very important in carrying out the Lenin-Stalin nationalities policy (raising the economic and cultural level of backward national rayons, oblasts, and republics to that of the most advanced sections of the country) and in socialist redistribution of the productive forces. Through territorial redistribution of monetary resources (and other measures), the Party and the Soviet state redistribute the productive forces throughout the country in such a way as to result in more rapid growth of the economic and military might of the socialist state, in higher living standards of Soviet citizens, and in faster growth of productive forces in formerly backward areas. Territorial redistribution of resources has been important in attaining a rapid rate of reconstruction of areas destroyed by the Fascists.

In addition to providing money for the national economy for culture, and for the armed forces and the administrative apparatus, the Soviet financial system performs the function of control. Financial control is based on control by the ruble and cost accounting. Cost accounting establishes a direct relationship between the results of the enterprise's work and its financial position. The better an enterprise works and the better it fulfills its plans, the more economically it uses fuel, materials, and labor, the sounder its financial and economic position will be. That is what is meant by control by the ruble within the enterprise.

Cost accounting enterprises are interrelated. Each is a supplier for some enterprises and a buyer from others. Each is interested in prompt payments for its product and in prompt delivery of raw materials in the proper assortment and quality and at established prices. This means that enterprises, on the basis of contracts and on the basis of permanent economic ties, check and control each other's work. However, this type of control is not sufficient to secure the most efficient utilization of materials, labor, and monetary resources.

Cost accounting requires that an enterprise be given a certain amount of operational independence so that it may assume responsibility for its resources. However, an inadequate understanding of its interests may lead an enterprise into opposition to the interests of the state. In practice one does find directors who place the interests of "their" enterprises ahead of the interests of the national economy as a whole. To counteract this practice, there must be regular daily control over the work of an enterprise by regulating and planning organs.

Such control is needed still more in the case of establishments in the nonproductional sphere which are not operating on the principle of cost accounting. Control by the ruble cannot be so effective here because there is no direct connection between the funds received and the results of work. The emphasis in such circumstances, therefore, shifts to accuracy in determining expenditure requirements and to not permitting expenditures for other than the purposes intended or in amounts in excess of established norms. (This is known as the estimate method of financing.)

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Financial control is inseparably bound up with the distributive functions of the Soviet financial system, since financial control is carried on when mobilizing and distributing funds. However, the sphere of financial control is considerably broader than the sphere of redistribution of money. It encompasses not only those monetary resources which are redistributed in the national economy, but the entire system of monetary relationships affecting every stage of national economic and financial planning.

In mobilizing funds, financial organs check the financial and economic position of enterprises and organizations, show how it is possible to increase accumulation by better utilization of the resources at the disposal of the enterprise or organization, take measures to see that enterprises and organizations fulfill their obligations to the state, and, depending on the course of plan fulfillment, define these obligations with greater precision.

Funds are allocated only for specified purposes and in amounts the size of which depends on actual plan fulfillment. Account is also taken of the effectiveness with which an enterprise or organization utilizes its own resources and the funds allocated to it. In allocating funds to an enterprise, establishment, or organization, financial organs check on plan fulfillment, how efficiently funds granted previously were utilized, possibilities of cutting expenses and of improving the mobilization of internal resources to meet the enterprise's needs for funds, etc.

Effective financial control cannot be limited to controlling the use of monetary resources and checking the fulfillment of plans for receipts and expenditures. Financial control should and does include planned production figures and sale of output on which the financial and economic position of enterprises and organizations depend.

The proper organization of financial control and its daily application are of the utmost importance to the whole system of national accounting and control. Financial control strengthens cost accounting and gives impetus to the drive to increase accumulation, accelerate the turnover of capital, improve utilization of fixed assets, economize, and adhere closely to financial plans. It helps to safeguard and strengthen socialist property; to increase the profitability of socialist enterprises and economic organizations; and to overcome bureaucratism, red tape, and thriftlessness.

Thus, the purpose of the Soviet financial system is not only to see that the needs of an expanding socialist economy are met through prompt and continuous distribution of income and accumulation, but also to achieve more effective utilization of income, accumulation, and national economic resources in general, and to stimulate more rapid economic expansion. This combination of distribution and control functions in the Soviet financial system makes it an important instrument for coordinating income and accumulation and for organizing the economic activities of socialist enterprises and institutions.

The financial system being an instrument of control over the formation, distribution, and utilization of income and accumulation, and hence of control over the production and distribution of the social product, enables the socialist state to exert daily influence on the whole national economy, and on every branch of economic, cultural, and administrative activity.

The financial resources of the socialist state and their allocation are determined by the indexes of the national economic plan, the quantity and quality of production, cost of production, the volume of trade, wage rates and wage bills, the volume of capital work, etc. However, financial planning is not the simple reflection of plans for production and sales but is an active instrument for executing these plans.

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The chief tasks of financial planning are:

1. To discover the resources of the national economy, to direct these to the satisfaction of society's prime needs, and to mobilize for this purpose as much income, accumulation, and savings as possible;
2. To introduce a regime of economy, to stimulate more efficient utilization of materials, labor, and money in each enterprise so as to achieve the best results in expanding production and trade and in meeting state needs;
3. To coordinate the various parts of the national economic plan as regards cost, thus helping to avoid the development of disproportions in the national economy and to overcome any disproportions which may arise.

The proper organization and effective employment of various forms and methods of distributing monetary income, accumulation, and savings, as well as control over their utilization, requires the creation of special state machinery. This machinery is the financial system of the USSR and the financial offices (or administrations) and accounting departments of enterprises, establishments, and organizations.

The financial system of the USSR includes the state budget of the USSR, state social insurance, state property and personal insurance, state savings banks, special state banks for long-term investments, and the State Bank of the USSR, which occupies a special position. Each of these agencies performs certain authorized functions, employs special methods of control by the ruble. All these establishments, together with the financial offices and accounting departments of enterprises, establishments, and organizations, see that the functions with which the financial system is charged are carried out.

State social insurance covers all persons receiving income in the form of wages. Its purpose is to take care of the material needs of workers and office employees in case of temporary or permanent disability and during old age, to organize rest homes for the insured, and to provide assistance to their families. In the USSR the funds for state social insurance are formed from special insurance payments which are compulsory for all enterprises, establishments, and organizations and which constitute a certain percentage of their wage bills. The state social insurance budget also plays an important part in financing social and cultural activities to improve living standards.

Funds to cover losses resulting from fire, flood, etc., and to prevent and fight such catastrophes are created through state property insurance. Property insurance in the USSR covers mainly collective farm and cooperative property, insurance of a considerable part of this property (buildings, livestock, crops, and fishing boats) being required by law. State personal insurance in the USSR provides additional benefits for citizens in case of illness, disability, or death, and is also one of the forms taken by citizens' savings.

State savings banks mobilize savings and temporarily free funds of the population by means of state loans and bank deposits. Deposits and noncash settlement operations give the savings banks the character of credit institutions of a special kind.

The main purpose of the special banks for long-term investments is to exercise continuous control over the use of funds allocated to capital investment. Most of this investment, namely, investments by state enterprises, establishments, and organizations, is not in the form of credit financing but in the form of budgetary allocations which do not have to be paid back and from resources of enterprises and economic organizations set aside for this purpose. This makes for very close relations between the special banks and the budget.

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The special banks are also credit institutions performing such functions as noncash settlements in the field of capital investment, extension of short-term credit to construction contractors and of long-term credit to collective farms, cooperatives, and to some extent to state enterprises.

The State Bank of the USSR is the central credit establishment of the USSR. It is the principal institution for short-term credit and noncash settlements for the national economy, the center for cash transactions and bank note issue, and the organ for making monetary settlements with foreign countries. The State Bank of the USSR is the main instrument for the redistribution of funds through the extension of credit and for credit control. It also performs the very important functions of financial planning and control.

It acts as cashier for the state budget, receiving payments into the budget and disbursing funds in accordance with budgetary appropriations. The free funds of the state budget, state insurance organs, and savings banks are deposited with the State Bank. The State Bank finances machine-tractor stations directly from the budget, provides funds for nonlimit (vnelimitnyye) expenditures and capital repair expenditures of enterprises, establishments, and organizations, and pays the drafts of long-term investment banks for funds for capital investment in those areas where the long-term investment banks have no branches.

The primary instrument for the distribution of income and accumulation is the state budget of the USSR, approved each year by the Supreme Soviet of the USSR.

The state budget of the USSR is closely bound up with the whole national economy. From it come most of the funds to cover society's needs. State budget funds cover most expenditures for the satisfaction of state needs--most investment in fixed and working capital, maintenance of the armed forces, expenditures for social and cultural programs, and maintenance of the state administrative apparatus.

The importance of the state budget of the USSR as the main instrument for distributing income and accumulation is shown not only by the large absolute amounts spent from it on the national economy and social and cultural measures, but also by the high proportion of budget funds in total expenditures on the national economy as a whole. Thus, total expenditures on the national economy in 1949, excluding investments of cooperatives and collective farms, were set at 189.9 billion rubles, of which 37.4 billion rubles were from profits of state enterprise and economic organization and 152.5 billion rubles from the state budget. Hence, state budget funds amount to 80.3 percent of total resources spent on the national economy (not including investment of cooperatives and collective farms). Capital investment in 1949 was set at 105.5 billion rubles, of which 79.8 billion rubles, or 75.6 percent, were to be from the state budget of the USSR. Of 23.6 billion rubles for the formation and replenishment of state enterprises' and economic organizations' own working capital, 10.1 billion rubles were provided by the state budget.

The state budget plays the leading role in the whole Soviet financial system. The state social insurance budget is a part of it. The reserve insurance funds of state property and personal insurance and the stable balances of deposits in the state savings banks go into the state budget in the form of special loans. For the most part, the organs for disbursing budget funds for capital investment and budget control in this field are the specialized banks of long-term investment.

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The operations of the Soviet financial system are based on the financial and accounting machinery of enterprises, establishments, and organizations of the socialist economy. This machinery keeps account of the receipts and expenditures; distributes and redistributes income and accumulation within the individual enterprises; exercises control over the formation, distribution, and utilization of income and accumulation with the enterprise; and exercises financial control in the interrelations of enterprises, establishments, and organizations. By means of this machinery, part of the income of the socialist economy is mobilized into central state funds and utilization (expenditure) of these funds is carried out. Increase in the profitability of the work of socialist enterprises and economic organizations, successful execution of the Soviet state's financial measures, and the fulfillment and surpassing of the state financial plans are in a large part dependent on the quality of the work of this machinery.

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